Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Cogdill | Analyst: Roger Lackey | Bill Number: AB 475

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: April 26, 2001

Attorney: Patrick Kusiak | Sponsor: ______

SUBJECT: Employer Qualified Wage Credit

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ______________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ______________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 21, 2001 STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

This bill would allow a small business that is located in a qualified area a credit based on a percentage of employees' wages.

SUMMARY OF AMENDMENTS

The April 26, 2001, amendments made changes to the April 23, 2001, amendments to "qualified wages." The amendments revised "qualified wages" to mean employee wages paid or incurred by the taxpayer attributable to the difference between the newly increased minimum wage and the minimum wage immediately preceding the increase.

In addition, the amendments defined the term "eligible employee" to mean an employee whose hourly wage is no more than twice the amount of the newly increased minimum wage.

The April 23, 2001, amendments revised the meaning of "qualified wages" and "qualified employer," added language specifying that no deduction may be allowed for any amount of qualified wages used to claim the credit, and specified a carryover period of 15 years.

As a result of the April 23rd and April 26th amendments, two of the implementation considerations and one of the policy considerations no longer apply. The remaining implementation, technical and policy considerations are included below. Also, a new revenue estimate is provided.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	05/04/01
__X__ N	____ OUA	____ PENDING		

Except for the discussion above, the department's analysis of the bill as introduced February 21, 2001, still applies.

Summary of Suggested Amendments

The department is currently working with the author's office to resolve the implementation and policy considerations discussed below.

POSITION

Neutral.

At its May 2, 2001, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, with Annette Porini, on behalf of Member B. Timothy Gage, abstaining.

IMPLEMENTATION CONSIDERATION

In order for wages paid by an employer to qualify for the credit it is unclear if the taxpayer's business must merely be located within the qualified area or if the taxpayer's employees must work exclusively in the qualified area. As drafted, this bill could be interpreted to allow a taxpayer with a business located in the qualified area to qualify for the credit even if the wages paid by the taxpayer are for employee services performed outside the qualified area.

It is unclear whether employee means a specified number of employee hours worked or if employee means is an actual person employed at any given time during the taxable year.

The term "newly increased minimum wage" is not defined. It could be argued that the phrase means any increase in the minimum wage, even if the increase occurred ten years ago.

Technical Consideration

This bill would state that no deduction **may** be allowed for any expenses for which the credit is taken. The author may wish to affirm that no other deduction would be allowed by using the term "shall" rather than "may."

ECONOMIC IMPACT

Tax Revenue Estimate

This proposal is estimated to impact PIT and B&CT revenues as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 2001 Enactment Assumed After June 30, 2001 $ Millions			
2001-02	2002-03	2003-04	2004-05
-$25	-$210	-$310	-$385

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact for this bill will depend upon the number of qualified employers located in certain high unemployment counties, the number of employees making less than twice the minimum wage per hour, the amount of wage differentials paid, and the amount of available tax liabilities of qualified employers.

This estimate was developed in the following steps. First, according to statistics from the Employment Development Department (EDD), there are approximately 16.5 million individuals employed in the State of California, of which 1.8 million are employed in counties that have at least 150% the California unemployment rate as of January 1, 2001 (4.5%). The 1.8 million figure was adjusted downward to remove those employed by government entities and those making more than $13.50 per hour, leaving 626,000 qualified individuals. Second, based on the same source, the average weekly hours worked is approximately 30 hours, or 1,500 hours annually. Third, according to the Industrial Welfare Commission, the minimum wage as of December 31, 2000 was $5.75 an hour and will increase to $6.75 an hour as of January 1, 2002, a $1.00 per hour increase. Multiplying these three elements, the total generated credit amount for tax year 2002 is projected to be approximately $939 million. This number was adjusted downward to reflect only eligible businesses (i.e. less than 100 employees) and current law deductions, leaving $862 million in generated credits for tax year 2002. It was assumed that on average 25% of generated credits would be applied against available tax liabilities in the first tax year. The full impact of the credit would not be felt until the first complete fiscal year (2002-03).

ARGUMENTS/POLICY CONCERNS

This bill would allow taxpayers located within enterprise zones and targeted tax areas to claim both this credit and the hiring credit based on the same wages. The existing hiring credit provisions do not restrict the taxpayer to one credit based upon a single employee.

This bill does not limit the credit to wages paid to employees that are employed within this state.

This bill would allow employers to claim a credit for employees who are relatives of the taxpayer. Also, it would allow self-employed taxpayers to claim the credit on their own wages.

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